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CENTRAL INTELLIGENCE AGENCY
Office of Current Intelligence
17 December 1963

CURRENT INTELLIGENCE MEMORANDUM

SUBJECT: Cambodia--Effects of US Aid Withdrawal

1. Prince Sihanouk's renunciation of US aid poses serious, though not insurmountable, problems for Cambodia. US aid, some \$365 million since 1956, has been Cambodia's chief source of external assistance.
2. Besides supporting various economic and welfare projects, US aid has provided a large part of the pay for the 30,000-man Cambodian armed forces, as well as their military equipment. Sihanouk realizes that he must make other arrangements to support the armed forces or risk alienating a heretofore loyal and essentially nonpolitical force.
3. There are indications that Sihanouk is a victim of his own emotions in the present situation and that he probably did not want relations with the US to deteriorate as far and as fast as they have. Following formal renunciation on 20 November, Cambodian negotiators made it clear that they wanted US aid to continue virtually intact for a 6-month period, after which Cambodia would be happy to negotiate a new agreement on more favorable terms.
4. Sihanouk's decision to terminate US aid and to nationalize segments of the Cambodian economy has had immediate and deleterious effects on the economy. The market value of the riel is down, there is hoarding of imported commodities, and the uneasiness of the business community is reflected in the flight of capital. Financing the forthcoming rice harvest is an example of the type of economic problem Sihanouk must now solve. This function has been

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traditionally performed by banking and export interests which face imminent nationalization.

5. While economic dislocation is likely to be severe, it will not be ruinous. By Southeast Asian standards, Cambodia is basically a prosperous country producing more food than it consumes. It has ample foreign exchange to see it through a short-term crisis. Austerity steps already are being taken to reduce the budget deficit.

6. Additional aid from other sources probably will be forthcoming, although not in amounts to take up all the slack. The French have indicated a willingness to increase somewhat their modest assistance program, and French Defense Minister Messmer will go to Phnom Penh in early January to work out details. Communist China and the Soviet Union have been exceedingly cautious in their reactions to the fluid situation. Thus far, they have made no offers of additional assistance.

7. While Cambodia has been moving toward closer ties with Communist China, as the recent conclusion of a civil air agreement suggests, it is unlikely that these ties will become significantly close in the near future. Sihanouk, under present circumstances, is loath to appreciably increase Communist China's presence in Cambodia. Aside from his own understanding of the dangers implicit in such a course, Sihanouk also realizes that important groups in Cambodia--including the military and the royal family--are opposed to increased Chinese Communist influence.

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